

Message Text

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ACTION AF-06

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FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 4422

INFO AMEMBASSY BONN

AMEMBASSY DAKAR

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 NOUAKCHOTT 1926

E.O. 11652: GDS

TAGS: EFIN EINV EMIN MR

SUBJECT: MIFERMA NEGOTIATIONS

REF: NOUAKCHOTT 903

SUMMARY: SIXTH ROUND OF NEGOTIATIONS BETWEEN REPRESENTATIVES OF MAURITANIAN GOVERNMENT AND SHAREHOLDERS OF NATIONALIZED MIFERMA IRON MINE TOOK PLACE IN NOUAKCHOTT WEEK OF SEPTEMBER 15. ALTHOUGH AGREEMENT ON COMPENSATION IS STILL SOME DISTANCE AWAY, POSITIONS OF TWO SIDES DID NARROW DURING WEEK. MIFERMA TEAM IS EXPECTED BACK IN NOUAKCHOTT WEEK OF OCTOBER 13. END SUMMARY.

1. LEADERS OF TEAM REPRESENTING STOCKHOLDERS OF NATIONALIZED IRON MINE MIFERMA (SOCIETE DES MINES DE FER DE MAURITANIE) GAPS EMBASSY DETAILED ACCOUNT ON SEPTEMBER 16 AND 18 OF SIXTH ROUND OF COMPENSATION NEGOTIATIONS WITH GIRM. (SEE REFTEL FOR FIFTH ROUND RESULTS.) GERALD VAN LOO (BRITISH STEEL CORP.) AND JEAN-YVES EICHENBERGER
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(PENARROYA) TOLD US THEY LEFT FIFTH ROUND OF NEGOTIA-

TIONS LAST MAY IN "STATE OF DISARRAY" WITH POSITIONS OF TWO SIDES STILL FAR APART. SUBSEQUENTLY, MIFERMA REPRESENTATIVES DISCUSSED PROBLEM WITH, AMONG OTHERS, WORLD BANK OFFICIALS, ESPECIALLY VICE PRESIDENT CHAUFFONIER, AF DEPUTY ASSISTANT SECRETARY OF STATE BLAKE, AND DIRECTOR GENERAL OF DEVELOPMENT ACTIVITIES OF OECD IN BRUSSELS. VAN LOO EMPHASIZED, PARTICULARLY IN CASE OF IBRD CONTACT, THAT PURPOSE WAS TO INFORM BANK OF SITUATION AND NOT ONE OF ASKING BANK TO TAKE SIDES IN MATTER. VAN LOO ADDED THAT JUST PRIOR TO RECENTLY-CONCLUDED IBRD-IMF MEETING IN WASHINGTON, REPRESENTATIVE OF GIRM (MINISTER OF STATE FOR NATIONAL ECONOMY SIDI OULD CHEIKH ABDALLAHI OR CENTRAL BANK GOVERNOR AHMED OULD DADDAH) HAD ALSO DISCUSSED SITUATION WITH CHAUFFONIER.

2. SIXTH ROUND OF DISCUSSIONS WERE CONDUCTED PRIMARILY WITH MINISTER ABDALLAHI AND ISMAIL OULD AMAR, DIRECTOR GENERAL OF SOCIETE NATIONALE INDUSTRIELLE ET MINIERE (SNIM), GOVERNMENT INDUSTRIAL HOLDING COMPANY WHICH NOW RUNS EX-MIFERMA (RECENTLY RENAMED COMPLEXE MINIER DU NORD--COMINOR). VAN LOO EXPLAINED THAT NEGOTIATIONS RESUMED WITH MAJOR STICKING POINT BEING RELUCTANCE OF GIRM TO MAKE SUBSTANTIAL CASH DOWNPAYMENT. IN EFFORT TO BRIDGE PROBLEM, MIFERMA REPRESENTATIVES SUGGESTED GIRM AGREE TO PAY \$20 MILLION PER YEAR OVER TEN YEARS; MIFERMA STOCKHOLDERS WOULD THEN AGREE TO PURCHASE APPROXIMATELY \$20 MILLION WORTH OF IRON ORE EACH YEAR DURING NEXT TEN YEARS FROM SNIM. CONSEQUENTLY, LITTLE GIRM MONEY WOULD ACTUALLY LEAVE COUNTRY. (VAN LOO POINTED OUT THAT SINCE FIRST YEAR IS NEARLY OVER, THERE WOULD HAVE TO BE GIRM CASH PAYMENT FOR MOST OF FIRST YEAR'S \$20. MILLION.) GIRM REPLIED THAT IT WOULD AGREE TO TRADE-OFF FORMULA IF AMOUNT WERE \$9.5 MILLION OVER TEN YEARS, I.E., JUST UNDER HALF OF AMOUNT ASKED BY MIFERMA. TEMPORARY STALEMATE DEVELOPED AT THIS JUNCTURE. MIFERMA THOUGHT CONCEPT OSPAYMENT IN IRON ORE WOULD BE ESPECIALLY ATTRAKPTIVE TO GIRM; FIRST, BECAUSE FORMULA SIBGTZVK PROBLEM OF HAVING TO RAISE CASH; SECOND, BECAUSE INEVIALE INFLATION OF IRON ORE PRICES OVER NEXT

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TEN YEARS WOULD HAVE EFFECT OF REDUCING ACTUAL TOTAL COST TO GIRM; AND THIRD, BECAUSE FORMULA IS SUFFICIENTLY INDEFINITE TO PERMIT GIRM TO PUBLICIZE IT IN ANY ONE OF NUM-
EUR OF WAYS, SELECTING PRESENTATION THAT BEST SATISFIES ITS DOMESTIC POLITICAL REUIREMENTS. IT ALSO PROVIDES GUARANTEED MARKET FOR LARGE PORTION OF MAURITANIAN ORE, WHICH GIVEN PRESENT STATE WORLD IRON BUSINESS MAY BE OF CONSIDERABLE SIGNIFICANCE OVER NEXT TWO YEARS.

3. NEGOTIATIONS RESUMED LATER IN WEEK WITH OULD AMAR ASKING, MUCH TO SURPRISE OF MIFERMA TEAM, WHAT MIFERMA STOCKHOLDERS WOULD WANT IF ENTIRE AMOUNT WERE PAID IN CASH. VAN LOO, AFTER SOME HORSETRADING, FINALLY INDICATED MIFERMA WOULD ACCEPT \$120 MILLION IN COLD CASH PROVIDED ALL OTHER PROBLEMS WERE RESOLVED SIMULTANEOUSLY AND FINALLY. (HE DESCRIBED THIS AS LOWEST CASH FIGURE MIFERMA COULD ACCEPT.) OULD AMAR, WHO INSISTED CASH OFFER IS SERIOUS GIRM PROPOSAL, RESPONDED THAT \$120 MILLION IS MUCH TOO HIGH AND OFFERED \$80 MILLION. MIFERMA DEMURRED, SAYING THIS IS NOT ENOUGH. VAN LOO DETERMINED IN SUBSEQUENT CONVERSATION WITH MINISTER ABDALLAHI THAT TO) CASH PAYOFF MAY NOT BE AS SERIOUS A GIRM PROPOSAL AS OULD AMAR SUGGESTED. ABDALLAHI CONFIRMED THAT GIRM COULD NOT PAY MORE THAN \$80 MILLION, ADDING THAT GIRM POSITION MUST BE STUDIED CAREFULLY BEFORE SUCH OFFER IS FORMALLY MADE.

4. AMONG SIDE ISSUES DISCUSSED WAS OLD PROBLEM OF ALLEGED \$20 MILLION IN FOREIGN EXCHANGE VIOLATIONS (NOUAKCHOTT 1925). VAN LOO EXPLAINED THAT ENTIRE MATTER BOILS DOWN TO CENTRAL BANK CIRCULAR WHICH INSTRUCTED FIRMS LIKE MIFERMA TO ENDORSE SHIPPING DOCUMENTS OVER TO LOCAL BANK FOR COLLECTION. MIFERMA INSISTS THAT IT DID NOT EVEN RECEIVE COPY OF CIRCULAR UNTIL JANUARY 1975, WELL AFTER NOVEMBER 28, 1974 NATIONALIZATION OF COMPANY. GIRM ARGUES THAT CIRCULAR WAS DATED JULY, EVEN IF IT DID NOT APPEAR IN JOURNAL OFFICIEL UNTIL DECEMBER,

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C O N F I D E N T I A L SECTION 2 OF 2 NOUAKCHOTT 1926

AND IS THEREFORE BINDING DOCUMENT. NO RESOLUTION OF ISSUE WAS REACHED. IT IS CLEAR THAT CENTRAL BANK IS MORE INTERESTED IN PRESSING THIS MATTER THAN IS MINISTER ABDALLAHI. GIRM SUGGESTED THAT, AS LAST RESORT, MIFERMA CAN TAKE ISSUE TO MAURITANIAN COURT. MIFERMA HAS NO INTENTION OF DOING THIS AND VAN LOO SEEMS TO THINK THAT FOREIGN EXCHANGE QUESTION WILL EVENTUALLY BE DEALT WITH SUCCESSFULLY IN CONTEXT OF OVERALL SETTLEMENT VIA NOMINAL FINE. HE SUGGESTED MIFERMA WOULD BE PREPARED ACCEPT FINE OF \$1 TO \$2 MILLION PROVIDED MIFERMA WAS NOT PUBLICLY BRANDED AS LAWBREAKER.

5. ALMOST AS AFTERTHOUGHT, VAN LOO COMMENTED THAT MIFERMA HAD BEGUN ARBITRATION PROCEDURE. HE EMPHASIZED THIS IS NORMAL PRACTICE AND THAT SHAREHOLDERS HAD SO INFORMED GIRM. NEVERTHELESS GIRM NEGOTIATORS HAD SHOWN GREAT DISPLEASURE AT FACT SHAREHOLDERS HAD INITIATED ARBITRATION. MINISTER ABDALLAHI TOLD MIFERMA REPRESENTATIVES THAT THIS ACTIONUMFHLIED LACK OF TRUST IN GIRM. EVENTUALLY MINISTER SHOWED MORE UNDERSTANDING OF MIFERMA
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DECISION TO SET ARBITRATION PROCESS IN MOTION, BUT ADDED HE HOPED ARBITRATION WOULD BE USED ONLY AS LAST RESORT. ABDALLAHI ALSO EXPRESSED DISPLEASURE THAT MIFERMA HAD BRIEFED INTERNATIONAL AND REGIONAL FINANCIAL ORGANIZATIONS PARTICULARLY IBRD ON (UNSATISFACTORY) STATUS OF NEGOTIATIONS. AGAIN, ABDALLAHI ARGUED THAT GIRM'S GOOD FAITH IS BEING QUESTIONED. SHAREHOLDERS, HOWEVER, CONSIDER GIRM REACTION SOLID CONFIRMATION OF CORRECTNESS THEIR TACTICAL DECISION. MIFERMA ACTION HAD SERVED TO REMIND GIRM EFFECTIVELY OF HIPZ INTERNATIONAL STAKES IN COMPENSATION DISPUTE.

6. VAN LOO COMMENTED THAT ATMOSPHERE WAS GOOD DURING SIXTH ROUND OF TALKS, ALTHOUGH TWO SIDES ARE NOT MUCH CLOSER TO AGREEMENT. EICHENBERGER POINTED OUT, HOWEVER, THAT SIXTH ROUND BEGAN WITH MIFERMA ASKING \$20 MILLION OVER TEN YEARS AND GIRM OFFERING \$9.5 MILLION OVER TEN YEARS. TALKS ENDED WITH MIFERMA WILLING TO ACCEPT CASH PAYMENT OF \$120 MILLION AND GIRM OFFERING

CASH PAYMENT OF \$80 MILLION. EICHENBERGER CONCLUDED, THEREFORE, THAT POSITIONS HAD INDEED NARROWED. VAN LOO EMPHASIZED THAT AT NO POINT HAVE MIFERMA STOCK-HOLDERS THREATENED MAURITANIANS OR SUGGESTED THEY HAVE REACHED POINT BEYOND WHICH THEY CANNOT RETREAT. VAN LOO ARGUED THAT, SO FAR, MIFERMA HAS YIELDED CONSIDERABLY WHILE GIRM HAS GIVEN VERY LITTLE. AT END OF CURRENT ROUND, VAN LOO CONCLUDED THAT GIRM POSITION IS NOT FROZEN AND BOTH SIDES SINCERELY WANT AGREEMENT. HE ADDED THAT ALL THAT COULD BE SAID DURING SIXTH ROUND WAS SAID, AND NEGOTIATING WEATHER UPON DEPARTURE IS "VARIABLE". MIFERMA STOCKHOLDERS PLAN TO RETURN TO NOUAKCHOTT DURING WEEK OF OCTOBER 13 TO RESUME TALKS.

7. IN DISCUSSIONS WITH AMBASSADOR EVENING SEPTEMBER 18, MINISTER ABDALLAHI DESCRIBED TALKS AS USEFUL AND AMICABLE. HE ADDED THAT BASIC OBSTACLE CONTINUES TO BE DISAGREEMENT OVER AMOUNT OF COMPENSATION, NOTING THAT MIFERMA HAS ASKED FOR SUM "WELL ABOVE" THAT WHICH GIRM BELIEVES TO BE "EQUIWABLE". ABDALLAHI SAID THERE ARE NO GROUNDS FOR TOO MUCH OPTIMISM BUT HE EMPHASIZED MIFERMA REPRESENTATIVES ARE RETURNING AND NEGOTIATIONS CONFIDENTIAL

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ARE ONGOING.

9. COMMENT: WHILE MIFERMA REPRESENTATIVES WERE NOT UNANIMOUS, POSITIONS OF TWO SIDES INDEED SEEM TO BE MOVING CLOSER TOGETHER. THIS CONTINUING SERIES OF LENGTHY DISCUSSIONS HIGHLIGHTS AGAIN GIRM'S NEED TO AIR ISSUES THOROUGHLY AND GIVE EACH MAURITANIAN PARTICIPANT OPPORTUNITY TO HAVE SAY. FACT THAT MIFERMA DISCUSSED PROBLEM WITH INTERNATIONAL AND REGIONAL ORGANIZATIONS AND INITIATED ARBITRATION PROCEDURES OBVIOUSLY DREW BLOOD; MAURITANIAN HONOR WAS QUESTIONED. BUT EQUALLY CLEARLY TACTIC CONTRIBUTED TO MOVING PROBLEM ALONG. WE AGREE WITH MIFERMA REPRESENTATIVES THAT THEY HAVE YIELDED CONSIDERABLE GROUND, MORE THAN THAT GIVEN UP BY GIRM. WE ALSO BELIEVE THAT MIFERMA SHAREHOLDERS ARE PARTICULARLY ANXIOUS TO GET COMPENSATION QUESTION SETTLED SO THAT WHOLE ISSUE DOES NOT ADVERSELY AFFECT SHAREHOLDER OPERATIONS IN OTHER PARTS OF WORLD. IN OUR VIEW, STAGE IS NOT SET FOR AGREEMENT WHICH INVOLVES COMBINATION OF GIRM CASH PAYMENT AND SERIES OF INSTALLMENT PAYMENTS TAKEN BY MIFERMA STOCKHOLDERS-ASSOCIATES IN FORM OF IRON ORE, SWEETENED PERHAPS BY GUARANTEE OF ADDITIONAL ORE PURCHASES. WHETHER THIS CAN BE ACCOMPLISHED DURING NEXT NEGOTIATING SESSION, HOWEVER, IS MOOT POINT. HANDYSIDE

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